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WHAT'S AHEAD FOR TOBACCO
MECHANIZATION—DEMAND



Tobacco, the last major labor-intensive crop in American agriculture, may be headed for mechanization. Mechanical combines, promising greating labor savings, work for flue-cured tobacco, the major cigarette tobacco. Further mechanical developments may not be far off. And, higher labor costs and foreign competition are increasing the pressure to mechanize within the industry.

Full-scale mechanization would have tremendous impact on the tobacco areas . . . displacing thousands of farmers and rural laborers, requiring large amounts of capital, shifting areas of production and certainly changing the economic face of the rural Southeast.

Government tobacco programs which limit acreage and production and restrict leasing and rental arrangements are, to a large degree, barriers to the adoption of full-scale mechanization. The small size of production units resulting from such programs have effectively deterred mechanization. Without changes in current tobacco programs, little further mechanization is likely.

A task force of USDA economists have just examined the formidable social and economic effects mechanization would bring to the five important flue-curing tobacco areas that range from southern Virginia to northern Florida.

MECHANIZATION

Tobacco, like its sister crop, cotton, did not lend itself easily to mechanization. But now automatic harvesters work. Cost estimates for a machine range from \$10,000 to \$12,000.

The tobacco combine, used with bulk curing systems, would halve labor needs, lowering production costs per unit. This could improve

the competitive world position of U.S. tobacco.

However, tobacco mechanization still faces serious problems, some technical, some institutional, some economic . . . and some social.

ECONOMIC PROBLEMS

Most farms grow too little tobacco to warrant mechanization. Besides the combine price, around

\$40,000 must be spent for bulk curing barns.

Economists figure that 40 acres of tobacco are necessary to justify these mechanization expenses.

However, nine-tenths of U.S. flue-cured tobacco allotments are less than 6 acres. These allotments accounted for almost two-thirds of the flue-cured crop in recent years.

In a recent count, few flue-cured farms had enough tobacco acreage to amortize mechanization. Of almost 195,000 allotments, 185 had more than 50 acres of tobacco. Around 1,500 grew between 20 and 50 acres.

Few farms are now mechanized because operators worry about future tobacco demand. Public and private agencies have intensified efforts to curb smoking, and manufacturing technology has lessened the tobacco used in cigarettes. The quantity of tobacco per 1,000 cigarettes has declined by over a quarter since the mid-1950's. (See page 5.)

However, economists project the 1975 tobacco demand equal to 1968's. They also figure that wage rates of \$1.35 or better (not far off in many areas) will put real pressure on producers to mechanize.

TECHNICAL PROBLEMS

Most steps of tobacco growing are already mechanized, or could be mechanized today, were it not for the tobacco growing cycle. The plant must be raised in a sterile seedbed because the seed is too small to plant directly. During transplanting the seedlings often suffer root damage and shock, causing the plants in the same field to be in different stages of maturity and ripeness.

To solve the maturity problem, scientists are working on a transplanting machine, now nicknamed

"the potter." For use in the potter, plants would be grown in peat pots, which would be implanted whole by the machine. Although not commercially available, this machine may insure uniform plant maturity and speed eventual mechanization.

SOCIAL PROBLEMS

American technical history exhibits more than its share of inventions that have revolutionized industry and farming. The mechanical tobacco combine follows the traditions, promising more efficiency—and carrying the possibility of tremendous social impact in tobacco-growing areas.

Tobacco mechanization is analogous to the introduction of the cotton harvester in the 1940's. Both machines operate in the South. The new machine could cause farms to increase in size and shift their locations, as did the cotton harvester. Both machines drastically cut the need for hand labor.

Recently, the Nation's tobacco crop used 480 million man hours, equivalent to over 2 and a quarter hours of work for every citizen.

Flue-cured, the major cigarette tobacco, took just over 300 million man hours, compared to cotton's slightly over 240 million and food grain's over 200 million.

Mechanization would touch about 84,000 commercial tobacco farms with over 350,000 persons in USDA's study areas, which produce 90 percent of the Nation's flue-cured tobacco. Over 45 percent of these farms were operated by tenants—whose families make up over half of the 350,000 people involved.

Around 30 percent of the operators were Negro, compared with 6 percent for total farm operators in the United States. However, among

tenants alone, two-thirds were Negroes, one-third were white.

Generally, tobacco farmers were older than the national labor force, averaging 47 years. Only 3 percent were under 25, while almost a quarter of the national labor force had not hit their quarter century mark.

About two-thirds of all the commercial tobacco farmers had eight or less years of education. Only 31 percent had attended high school.

Hired workers were used by 92 percent of the tobacco farmers in 1967. They averaged 3.9 years of school. Regular hired tobacco workers averaged only 1.4 years, while weekly and daily workers had more education.

Ramifications of mechanization include displacement of many of the older, less-educated farm operators and most of the hired work force.

Operators: In some areas, mechanization would move tobacco growing plots from hills to leveler land to insure efficiency and better handling of the combine. Low-margin farms in hilly areas may find survival rough.

Especially hard hit will be tenants, with no allotment land to sell. Land values in hill regions would suffer.

Hired Workers: The makeup of the force will change and new skills

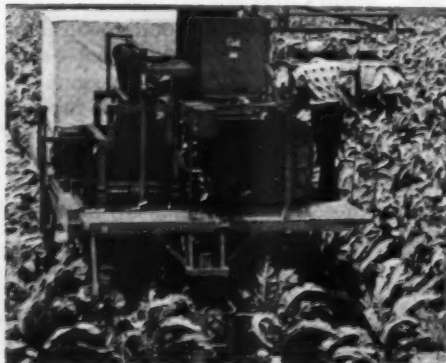
will be needed. For example, many women now supplement family incomes by working in the tobacco harvest. But, new curing racks for bulk barns, when loaded, will weigh about 115 pounds and will have to be lifted up to six feet. So, mostly male workers may be used in automated tobacco harvesting.

Those who remain in the labor force after mechanization will need skill at operating automatic combines, driving tractors, and handling chains and electric hoists.

People leaving tobacco, both farmers and hired workers, will be older and less-educated workers with skills not particularly wanted in other labor markets. Welfare and retraining programs will probably need to be stepped up as a result.

Manufacturing seems the most probable employer for some of the relatively unskilled and uneducated persons displaced from farm employment throughout the tobacco belt. Between 1962 and 1967, non-farm employment in the area grew 24 percent, nearly double the national rate. Manufacturing grew 28 percent in the same time. Trades and services are also growing employers in the areas.

Those able to make the switch to industry might make a larger income with less back-breaking labor.



Combine which primes and racks two rows of tobacco at once. Field speed is over 2 miles per hour. (Photo courtesy Powell Mfg. Corporation.)



FUTURE DEMAND

Tax hikes, technology, and filter tips are a few of the factors confronting the tobacco farmer's products.

In recent years, demand for domestic cigarette tobacco has not increased. The 1.1 billion pounds used in 1968 was about what was needed 10 years earlier.

Yet during 1958-68, the number of smokers, cigarettes smoked, and exports of U.S. cigarettes increased substantially.

Offsetting these increases was a 28-percent drop in the average quantity of tobacco used per 1,000 cigarettes—due to greater use of tobacco sheet made from midribs and stems, introduction of thinner cigarettes, and popularity of filter-tips, which have shorter tobacco columns than non-filters.

There may not be any upswing for domestic cigarette tobacco in the near future, either.

Economist Donn A. Reimund of USDA reports that a 1-percent rise in the retail price per pack creates a $\frac{1}{2}$ -percent loss of sales. Sales drop off even faster when prices reach the top of their current range. So the recent trend to higher cigarette taxes, if continued, could result in lowering sales.

USDA tobacco economist Arthur G. Conover figures that by 1975, the smoking-age population (18 years and up) will be 12-13 percent larger than today.

FREEZE-DRY TOBACCO

... That's what's being done at the North Carolina Experiment Station.

Freeze drying flue-cured tobacco doubles its volume, compared with ordinary curing.

Freeze-dry tobacco could be used to replace one-half of the ordinary flue-cured tobacco used in cigarettes.

With less tobacco, the tar and nicotine content of the cigarette would be somewhat lower than if freeze-dry was not substituted.

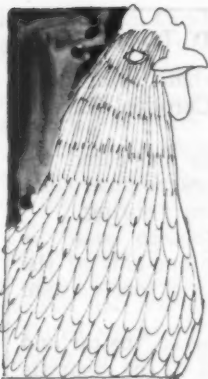
Public acceptance of the product, and the cost involved in the process, have not been established yet.

But, says Conover, the percentage who smoke will probably decline from 46 to 41 percent by then, due to greater concern about health effects coupled with reaction to higher prices. These factors also could lower the number of cigarettes consumed by each smoker.

The trend to more filter-tipped cigarettes likely will continue. So too greater use of imported tobaccos, which cost less than domestic types. But imported tobacco use has leveled off recently.

In the future, U.S. cigarette exports are expected to grow, with more popularity, rising incomes and larger population abroad.

Looking to 1975, Conover projects that total cigarette manufacture will be at most 4 percent higher than currently. However, the amount of U.S.-grown tobacco used per cigarette is likely to continue declining. So total use of domestic tobaccos in cigarettes might be no larger than at present.



EYEING EGG USE

Today's living style is shifting consumer tastes to convenience foods. So it is with the egg.

Per capita consumption of shell eggs has declined about a fifth since 1954, but annual consumption of processed eggs has risen over a third in the same time. Starting at 25 per person in 1954, consumption reached 34 in 1968.

There's a trend to lighter breakfasts. And the modern worker may eat an eggless breakfast when he's in a hurry.

OUR FROZEN DESSERT CROP

The ice cream cone was born of necessity at the 1904 St. Louis Fair, and now, many billions of dips later, it's an American tradition.

Although a favorite of some in American colonial days, ice cream didn't really catch on here until after Dolley Madison served it at the White House in 1812. First commercial U.S. ice cream plant was built in 1851, and by 1859 the cool confection began flowing freely. From 4,000 gallons in 1859, total U.S. output climbed to nearly 800 million gallons last year.

Americans eat a lot of frozen des-

Also, the modern working wife uses prepared mixes that often have eggs already included, instead of fresh eggs.

In 1968, 6.1 billion processed eggs were used, 53 percent frozen, 38 percent dried, and 9 percent liquid.

Frozen: Important to the baking industry, hospitals, hotels, baby food manufacturers, and noodle, mayonnaise, and macaroni makers. Use is declining, however, and consumption may drop 15 to 20 percent by 1975.

Liquid: Confectionery firms, candy makers, and large food manufacturers are prime customers. Recently, many bakeries and large institutions, traditional users of frozen eggs, have switched their interest to liquid eggs.

Dried: Recent technical improvements have led to a wider use of dried eggs, and by 1975, they may account for as much as half of processed egg production. Main buyers are the baking and premix industries.

serts including ice cream. Production of frozen desserts was nearly 1.2 billion gallons last year, worth approximately \$2 billion.

The family of commercial iced desserts has four major branches, each with a specific share of fat and other solids, certain weights and flavors standardized or regulated by Government or industry. For example, ice cream must contain not less than 10 percent butterfat and at least 1.6 pounds of milk solids and must weigh 4.5 pounds per finished gallon, to be entitled to the name.

Ice milk, milk sherbet, and meliorine are the other major products of the frozen dessert crop.

SPOTLIGHT ON WISCONSIN:

THE NUMBER ONE CHEESE PRODUCER

Saying, "Cheese!" brings a large grin to Scotty Walters' face.

He's the statistician in charge of USDA's Statistical Reporting Service office in Wisconsin, the leading State in milk and cheese production.

Scotty's job, and that of his staff, is to document Wisconsin's varied farm output, running the gamut from cheese to tart cherries. They have the highly necessary help of 40,000 volunteer crop and livestock reporters, who keep completed questionnaires pouring into the Madison office.

Dairying, cheese making, and crop reporting are "old stories" to Wisconsinites.

Wisconsin, in 1917, was the first State to sign a State-Federal cooperative crop reporting agreement.

The dairy industry goes back further, naturally.

"Great areas of lush grass, clear streams and meadows captured the imagination of the State's European settlers, who had a background in dairying", says Elmer Morehead of the SRS office.

"Their visions of dairy herds and much butter and cheese resulted in Wisconsin becoming the top dairy State by a wide margin. Wisconsin dairy herds supplied 1 in every 6 pounds of milk produced in the U.S. in 1968", he said.

To feed the herds, more than 90 percent of the State's 9 million acres of harvested cropland are in crops such as hay, corn, oats, and barley.

Cheese is Wisconsin's primary dairy product. More milk is used for this and other manufactured dairy products than for fresh use.

Walters says, "Last year's cheese-making used 7¾ billion pounds of the 13 billion pounds of the State's milk destined for dairy products".

"At first," Morehead continues, "cheese reached local stores as farm products to be traded for the basic needs rural families were unable to make themselves. Large scale output soon followed. Factory cheese production in the State dates back more than a century".

It wasn't long before Wisconsin cheese meant a taste delight across the country and was on tables around the world. Production continued to rise, and Walters says, "In 1968, this State produced 847 million pounds of cheese, enough to meet the demand of 80 million customers, according to U.S. per capita consumption figures".

Although 7 in 10 pounds of Wisconsin cheeses are American types, there are also Muenster, Brick, Limburger, Italian, Blue Mold, Swiss, Gouda, and many other flavorful kinds.

Production of Italian cheeses last year, over 135 million pounds, made these varieties most important after American and processed cheeses.

Nationally, Italian cheese output has set a new record each year since 1954, thanks mostly to the growing popularity of pizza.

SHOULD YOU INCORPORATE?

The number of incorporated farms is growing, mainly because farm families find incorporation a useful device. Incorporation has advantages, but limitations as well. It's worth careful study.

To help you decide if incorporation is for your farm, we asked Bob Boaley, USDA expert in this area, to explain the pros and cons:

Incorporation makes your farm a legally recognized entity, distinct from yourself and any other owners. The farm is granted a charter of incorporation under the laws of your State, and treated in business and legal dealings as an individual.

You, your family members, and business associates keep control of the incorporated farm by becoming shareholders in it.

Shares are usually distributed in proportion to the shareholder's relative contribution in financing and running the business.

The value of your shares is the extent of your personal liability, since only the corporation's assets, not your own, can be attached to meet corporate debts.

Advantages

Incorporation has a variety of features which might be of use to you:

- If you have considerable non-farm assets to protect, the limited liability feature is important.
- Credit may be easier to obtain, since the corporation has a legal continuity of its own.
- Incorporating may help keep the farm in your family. Shares of stock can be re-distributed as responsi-

bility for the business shifts among family members.

- You will probably want to incorporate under "Subchapter S" for small businesses to avoid some tax disadvantages associated with regular corporations.

Subchapter S corporations, also known as closely-held or family farm corporations, have only one class of stock, and no more than 10 shareholders.

- If you incorporate your farm in this way, your share of the business income, losses, or capital gains will be taxed as personal income.

Regular corporations, in contrast, are taxed at rates which are generally less favorable for small and medium size businesses, and income they distribute as dividends is taxed again at personal rates.

- As a major shareholder nears retirement, he can gradually transfer shares of stock to family members, while still retaining some interest in the farm. Transferring a farm this way also eases the burden of State and Federal inheritance tax, and helps keep the farm intact.

Limitations

Incorporating your farm has limitations which must be considered.

- Just forming a corporation will cost you money. There will be legal fees and the cost of obtaining a State charter.
- Each year, you must file an annual report to the Secretary of State, and possibly pay annual fees. However, many incorporated farmers say that reporting is not burden-

some, and that the bookkeeping needed is no more complex than for a well-run unincorporated farm.

- Since farm businesses are relatively small and family run, there may not be a market for the shares outside the family.

- The limited liability feature won't be much help if the only major assets of the individual shareholders are their shares of the business.

- And, if loss of a principal shareholder would cripple the business, incorporating alone won't perpetuate the farm.

- Incorporating can affect income and property taxes, social security payments, and the like. These ef-

fects aren't necessarily undesirable provided you plan for them.

Getting Information

If you and your family are thinking about incorporation, give consideration to the pros and cons, and also other methods of achieving the same goals. You might find other ways of strengthening your position which are simpler and cheaper.

Be sure to get sound legal and financial advice at the outset.

Talk with your banker, tax advisor, and certainly, your attorney. You may also want to write to your State Agricultural Experiment Station or consult your local extension agent for any bulletins and advice they may have.

FREE: KEEPING GOOD RECORDS

How have your farm sales been going this year? What is your taxable income? What yields are you getting? The answers should be in your farm records. And records are useful for assessing areas for improvement.

USDA has a bulletin that can help you evaluate your present record keeping system.

"Family Farm Records", defines five important types of records, explains how to set them up, and shows samples of each kind.

To obtain a free copy, send your name, address, and Zip code to Editor, Agricultural Situation, Office of Management Services, USDA, Washington, D.C. 20250.



NEW NITROGEN SOURCE FOR LIVESTOCK

Livestock feeders may soon have available to them a new low cost nitrogen source. Dairy and livestock specialists at the Michigan State Agricultural Experiment Station, testing with sheep, dairy cows, and feedlot steers, developed ProSil, a feed additive which uses anhydrous ammonia.

Anhydrous ammonia costs only a third as much per unit of nitrogen as urea, the most commonly used nonprotein nitrogen source. Experiments proved that the bacteria in the stomach of a ruminant can readily convert the nitrogen in ProSil into protein.

ProSil, though a patent pending process, suspends the anhydrous ammonia gas in a solution that can be mixed with corn silage. The new product also contains minerals necessary to balance a growing ration composed primarily of silage.

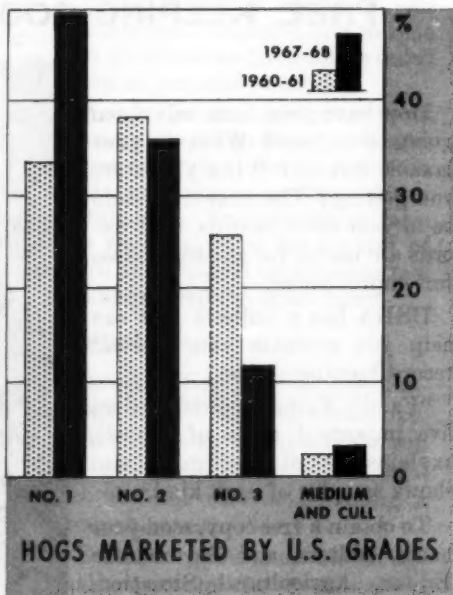
Developers recommend mixing 50 pounds of ProSil with each ton of 35 percent dry matter silage. They caution against feeding anhydrous ammonia directly to livestock.

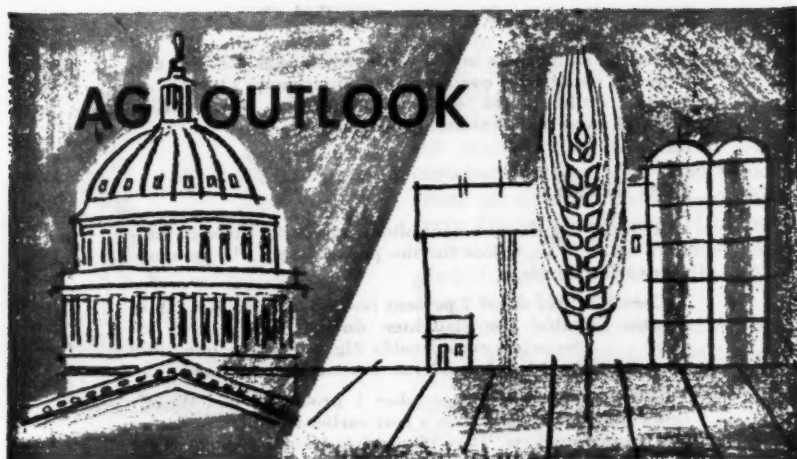
Scientists are experimenting with similar additives that would be suitable for mixing with grass, small grain silage, and sorghum.

LEANER HOGS

A recent USDA study shows that almost half of the hogs marketed during 1967-68 were U.S. No. 1, compared with just over a third at the start of the 1960's.

The importance of U.S. No. 2's decreased only slightly during the 1960's, dropping from 38 percent of hogs marketed to 35 percent. But No. 3's, or fat hogs, fell from over a quarter of marketings at the start of the decade to 12 percent in 1967-68. Medium and culls also dropped slightly.





Based on Information Available October 1, 1969

PAYING MORE, SMOKING LESS

Retail cigarette prices in August were 6 percent higher than a year earlier. Higher wholesale prices plus tax increases in 17 States were the cause. More tax hikes are in prospect for 1970.

Higher prices, plus smoking-health publicity are reducing per capita cigarette smoking 2-3 percent this year . . . Total use also will be down, by about 1 percent . . . These trends are expected to continue next year.

SUPPORT LEVEL CLIMBS

Under the formula set by law overall support levels for tobacco crops goes up next year . . . Increase for 1970 will about match the 3½ percent rise for 1969.

TOBACCO SUPPLIES TRIMMED

For the fifth season in a row, total tobacco supplies will decline . . . Large crop but smaller carryover leaves 3 percent less tobacco for 1969-70 than the season before . . . Smaller carryover expected in mid-1970, too.

LARGER IMPORTS?

Trend to larger imports of tobacco for cigarettes could resume in 1969-70. Last season imports declined, but smaller domestic supplies and higher farm prices may spur imports.

LESS MEAT

Red meat supply a little smaller this fall than last . . . Smaller output of pork, veal, lamb will offset increases in beef over last year's level.

CATTLE PRICES

Despite an increase in fed cattle marketings, fall fed cattle prices expected to continue near late summer's level . . . Feeder cattle prices will stay above a year earlier this fall, even with seasonal supply bulge.

HOG PRICES

Reduced hog slaughter supplies a possibility through mid-1970 . . . If so, prices for the period likely will be above year-earlier levels.

Corn Belt has about 7 percent fewer hogs than last fall in weights suitable for slaughter during last months of 1969 . . . So prices considerably higher than in late 1968 are expected, with only moderate seasonal price decline.

Looking ahead, on September 1 producers had slightly fewer lightweight hogs than a year earlier destined for winter and spring markets. They planned to have 2 percent fewer sows farrow during June-November. But producers planned a 2-percent step-up in farrowings this winter, compared with last. Winter farrowings will provide the bulk of Summer marketings.

SPECIALTY MEAT?

That's where veal seems to be heading. Per capita consumption is down to less than 3.5 pounds, vs. nearly 110 pounds for beef. This year's calf slaughter was down a tenth through August, and prices were \$6 higher than last year in late September. They'll stay strong this fall and in the first half next year, too, with smaller slaughter in store for early 1970.

SOYBEAN PRICES

Prices for soybeans are expected to be a little under support (\$2.25 this year) during harvest, recovering seasonally in spring.

Soybean usage in 1969-70 should top this season . . . Could exceed 1 billion bushels . . . Domestic crushings and exports of beans will rise . . . But supply will be bigger than this season's, too . . . Carryover next September 1 could be somewhat larger than this year's 322 million bushels.

RICE OUTLOOK

Farm price of rough rice in 1969-70 will probably average a little above loan . . . Loan rate on new crop is \$4.72 per cwt.

Supply for current season is a little smaller than last but well above needs . . . Exports appear to have peaked and are expected to decline somewhat next year . . . Carryover next August will top 17 million cwt. held on August 1, 1969.

FLOWER FINDINGS



Who buys more flowers, men or women? Women and mostly married women at that, according to a USDA study of our flower buying habits.

Predictably, the fellows are way ahead of the gals in the purchase of corsages.

When Hubby stays out too late, though, he'll probably make it up to his mate with a bunch of glads or roses instead of a corsage. Married men, it seems, concentrate their floral purchases on unarranged cut flowers.

And if it's a lady's prompting that makes a man bring her flowers, he isn't saying. Men interviewed in the survey said buying floral products was their own idea.

Between them, guys and gals buy about \$2 billion worth of flowers and ornamental plants a year. Annual farm cash receipts from sales of these products total over \$700 million a year.

Growing and marketing fresh-cut flowers is dominated by small family farms.

A typical flower nursery is a family venture located close by a metropolitan area. An average unit

grows flowers on only $4\frac{1}{2}$ acres of land or 13,000 square feet under glass, but has sales approaching \$17,000 a year.

Although local products remain the mainstay of the florist shop, customers today can also choose from air-shipped flowers—orchids from Illinois or Hawaii, Colorado carnations, Florida "mums" and gladioli, and even lilies of the valley from West Germany.

In 1967, domestic wholesale flower crops were valued at close to one-half billion dollars, retail flower sales at \$2 billion. And with more and more families in the over-5,000 income bracket, sales have been blossoming.

TAX TAKE

Farm real estate taxes average \$1 for each \$100 of full land value. That rate has stayed about the same for 20 years. But rising land values have caused the total tax bill to soar.

In 1967, latest year with data available, farmers paid \$1.86 billion in farm real estate taxes. That's three-fourths higher than the average tax bill they paid in 1957-59.

Farmland taxes have risen fastest in the Pacific States and Southeast, more than doubling during the last decade.

In 1967, tax per acre was highest in New Jersey, averaging \$14.95. Massachusetts, Rhode Island, and Connecticut farmers paid about \$9 per acre.

But per acre taxes in New Mexico were a tantalizing low 16 cents!

DAIRY PRODUCTS:

LONG HISTORY OF SUBSTITUTES

From evaporated filled milk in World War I to nondairy "coffee whiteners" in the 1960's, popularity of substitute dairy products has increased. And their continued build-up could further reshape demand for dairy products.

Some dairy substitutes use no milk, although many contain milk-derived sodium caseinate—considered a chemical, not a dairy product. Substitutes for natural whole milk products mostly are processed in dairy plants and sold through regular milk marketing channels.

If we trace the marketing of natural dairy substitutes along the milkman's route over the past half-century, the ride begins at a slow jog after the first World War, quickens to a trot after World War II, then rushes into a gallop. And this advancing use of substitutes has been at the expense of natural whole dairy products.

For example, many consumers substitute margarine for butter. Pressed into service during butter-scarce wartime, margarine used lard or vegetable fats instead of butterfat, but is now made from vegetable oils (mostly corn or soybean) modified to look and taste buttery. U.S. per capita use has boomed since World War II, quadrupling between 1940 and 1967, while butter consumption declined 70 percent.

There is also competition from dairy and nondairy substitutes among the frozen desserts which an-

nually take about 12 percent of U.S. milk production.

Ice cream production rose 17 percent between 1958 and 1968; other dairy and nondairy products also enjoyed increasing acceptance. Ice milk (using less butterfat than ice cream) more than doubled in those years and milk sherbet (also low in fat) increased a third. Nondairy mellorine output was light—it's not legal everywhere—but rose 40 percent.

Nondairy coffee whiteners and whipped toppings dashed into the market recently but now command about 35 percent of light cream sales and over half the market for cream toppings. Reports indicate a decline of about a fifth in heavy cream sales during the past decade. Light and heavy creams in 1958 accounted for some 3 percent of total U.S. milk fat use; by 1968 only about 1½ percent.

Substitutes for fluid milk include a "filled" variety combining vegetable fat with skim milk, and a synthetic type with vegetable fat and caseinate in lieu of milk solids. Usually coconut oil has been the replacement fat, but recently substitution of polyunsaturated vegetable oils has increased.

In June 1968 sales of filled milk in Federal order markets totaled 4.4 million pounds—0.4 percent of total Class I milk sales in reporting markets.

COMBINE PURCHASE PAYS OFF

A cash grain farmer is considering whether to rent, buy or custom hire a combine for his corn. Which is the best deal over the long run?

An Economic Research Service evaluation based on a 470-acre unit shows custom hiring the rig costs the farmer about \$8 an acre or some \$3,700 a year to harvest his crop. Renting costs \$5 an acre for the machine and he spends an extra 50 cents an acre for gas, oil, and grease—a total of about \$1,000 a year less than for custom hiring.

But if he buys a machine—outright or on credit—in the long run he would find he gets the best deal because of tax deductions through depreciation during the 7 year expected life of the machine.

For example figuring the cost of a combine at \$9,500, the farmer would also have to pay out \$635 a

year operating costs (85 cents an acre for repairs plus the 50 cents for fuel and grease). And if he bought the machine on credit he'd pay 7-percent interest on the unpaid balance as well, but this is tax deductible for the 3-year payment term.

In either transaction, a first year depreciation allowance would be nearly \$2,000. Thus the machine has a starting base of \$7,500 instead of \$9,500.

After the first year he can use a declining balance method of depreciation.

Assuming that for the 7-year period his net income is about \$87,500, the farmer could figure on retaining about \$60,700 of his cash if he bought the machine outright, \$60,900 if bought on credit.

Thus he'd be \$200 to the good if he bought for credit rather than cash. He'd also be over \$6,000 further ahead of custom-hiring, and \$2,000 better off than if he rented a combine, by the end of his 7-year depreciation period.

NOVEMBER 1969

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AGRICULTURAL SITUATION

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